

Rev. Proc. 89-52, I.R.B. 1989-37, 17, September 11, 1989.

SECTION 1. PURPOSE

The purpose of this revenue procedure is to advise IRA trustees of the Form 5498 reporting requirements that must be satisfied when the initial holder of an IRA dies. The revenue procedure sets forth, for income tax purposes, the requirements for reporting the ownership and value of the IRA with respect to the decedent in the year of death, and with respect to any beneficiaries in the year of death and future years. This revenue procedure does not address the issues raised by the death of the original owner of an IRA for federal estate and gift purposes.

SEC. 2. BACKGROUND

An IRA trustee is required to furnish an annual statement to each IRA holder and a Form 5498, Individual Retirement Arrangement Information, to the Internal Revenue Service (hereinafter, both of these reports will be referred to as Form 5498, reporting contributions to the IRA and the fair market value of the IRA.

In the year in which an IRA holder dies, the IRA trustee must submit at least two Forms 5498: one reporting the fair market value of the IRA with respect to the decedent (including any contributions made by the decedent in the year of death), and another reporting the value of the IRA with respect to each beneficiary. For each subsequent year, Form 5498 is issued only with respect to each beneficiary.

SEC. 3. REPORTING REQUIREMENTS

.01 Ownership

Under various sections of the Internal Revenue Code, the rules that apply in the case of an IRA held by a non-spouse beneficiary of the original owner are different from the rules that apply in the case of an IRA held by the original owner. In addition, different treatment may be required with respect to IRAs received due to the deaths of different original IRA owners. Thus, an IRA received by a non-spouse beneficiary upon the death of a given IRA owner must be kept separate from any IRA established by the non-spouse as an original owner, and also from any IRA received upon the death of any other original IRA owner.

Pursuant to section 219(d)(4) of the Code, the non-spouse beneficiary may not make deductible contributions to an IRA received due to the death of the original owner, and pursuant to section 408(d)(3)(C) of the Code, the non-spouse beneficiary may not make rollovers to or from such an IRA. In addition, such IRAs must be treated separately for purposes of determining the portion of an IRA distribution that must be included in gross income under section 408(d)(1) of the Code.

As a result of the above limitations, an IRA holder must be able to identify the source of each IRA he or she holds. In completing a Form 5498, the IRA trustee must therefore state the name of the present holder of the IRA and also continue to identify the prior owner, for example, "Brian Young as beneficiary of Joan Smith". The trustee must use the beneficiary's taxpayer identification number in completing the Form 5498 reporting the portion of the IRA belonging to that beneficiary.

.02 Valuation

As indicated above, in the year of the decedent's death, Forms 5498 must be provided both to the decedent and the beneficiary. The forms must reflect the fair market value of the IRA in the following manner:

- (1) On the decedent's Form 5498, the fair market value, including gains and losses, as of the day on which the decedent died, or pursuant to the alternate reporting method described below; and
- (2) On each beneficiary's Form 5498, the fair market value of that beneficiary's share of the IRA as of the end of the year in which the decedent died (and each year thereafter).

In most cases, the executor of the decedent's estate will not need the date of death fair market value for income tax purposes. The date of death valuation will only be necessary for income tax purposes if one or more of the decedent's IRAs contain nondeductible contributions and, in addition, the decedent received an IRA distribution in the year of death.

Because the date-of-death valuation is not always needed for income tax purposes, the IRA trustee is permitted to use an alternate reporting method. Rather than report the date-of-death value, the trustee may report the value of the IRA as of the end of the year in which the decedent died. If the IRA trustee uses the alternate reporting method, any amount that the trustee reports on a beneficiary's Form 5498 in the year in which the decedent died should not also be reported on the decedent's Form 5498 for that year. Consequently, the value of the decedent's account as of the end of the year of death will frequently be zero.

If the trustee chooses to report the value as of the end of the year, the trustee must inform the executor of the decedent's estate of the executor's right to request a date-of-death

valuation. The information may be placed in the empty boxes on the Form 5498. The valuation must be furnished to the executor within a reasonable period of time following the request. For purposes of providing this information, a period of 90 days will be considered reasonable.

If the IRA trustee has no knowledge of the death of an IRA owner until after the reporting date (May 31), no corrective filing of the Form 5498 is required. However, if the executor requests the date of death valuation, the trustee must provide the information in a timely manner.

SEC. 4. EXAMPLE

IRA Owner David Harris dies on June 1, 1990, leaving his IRA account to his designated beneficiaries, Ben Johnson and Olivia Smith, neither of whom is a surviving spouse of Mr. Harris. Each beneficiary will own a fifty percent share of the IRA.

In the year Mr. Harris dies, the IRA trustee must complete a Form 5498 reporting the fair market value of the IRA with respect to Mr. Harris. The trustee, having chosen to use the alternative reporting method, completes the Form 5498 using the value of the IRA as of December 31, 1990, which, in this case, will be zero. This is the last Form 5498 that must be sent with respect to David Harris. Ms. Smith, as executor of Mr. Harris' estate, may request that the trustee provide her with the actual value of the IRA as of June 1, 1990.

With respect to Mr. Johnson, the IRA trustee identifies fifty percent of the IRA as belonging to "Ben Johnson, as beneficiary of David Harris," and must so report the ownership on the Form 5498 that will be sent to Mr. Johnson. The Form 5498 sent to Mr. Johnson must report the year-end fair market value of his portion of the IRA, and his taxpayer identification number should be used in completing the form. Ms. Smith's Form 5498 will be prepared in a similar manner.

DRAFTING INFORMATION

The principal author of this revenue procedure is Karen Field of the Employee Plans Technical and Actuarial Division. For more information concerning this revenue procedure, call the Employee Plans Technical and Actuarial Division's Taxpayer Assistance Number, (202) 566-6783 (not a toll-free number). The Taxpayer Assistance line operates Monday through Thursday between the hours of 1:30 pm and 4:00 pm, Eastern Standard Time. Mrs. Field's telephone number is (202) 343-0729 (also not a toll-free number).